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SUBJECT: BURMA'S KYAT ON THE REBOUND?

REFS: A)RANGOON 1203, B)RANGOON 1139

1. (U) Summary: From a record low of K.1360/\$1 on September 30, the Burmese kyat appreciated 8.1% to K.1250/\$1 on October 31, 2005. Local moneychangers forecast that it will continue to appreciate through tourist season (until May 2006). Despite the kyat's appreciation, prices of consumer goods and the inflation rate continued to increase in October. End Summary.

KYAT VALUE UP

2. (U) After hitting a record low of K.1360/\$1 on September 30 (Ref B), the kyat started appreciating in October, reaching K.1250/\$1 on October 31, a gain of 8.1 percent. Moneychangers in Rangoon expect that the kyat will continue to appreciate until May 2006, by perhaps as much as 5-10 percent, unless there is an unexpected local demand for US dollars.

3. (U) One reason for the kyat's gain is the arrival of the traditional tourist season, which brings in U.S. dollars and increases the demand for kyat. The currency also received a boost from increased public demand for kyat to pay higher fuel prices, which is adding about K.1 billion (US\$850,000) to the government's coffers daily, according to Embassy calculations. Also, the demand for dollars usually lessens at holiday time because trade activity declines.

GEM SALES UP

4. (U) Another boost to the kyat came from an inflow of dollars spent by over 1,200 foreign gem merchants who visited the Mid Year Gems Emporium held in Rangoon from October 12 to 16. The gems merchants make both formal and informal purchases of gems from local traders inside and outside the official Gems Emporium. Official purchases at the Emporium are made through bank transfers in euros. A source from Myanmar Gems Enterprises said that, although the attendance was about the same, gem sales were much higher this year than last year.

5. (SBU) The increased sales at the Gems Emporium may be attributable to a new GOB regulation forbidding the previously-allowed sale of lower quality jade directly across the Chinese border. Now all gems are supposed to be sold in the Emporium. Some contacts in the mining industry say small miners are happy to do so because they earn credit from formal exports that they can use later to import goods. Others in the industry say that sellers have lost income formerly earned by under-reporting the value of their gem exports to the GOB and collecting the difference in Chinese bank accounts.

PRICES UP TOO

6. (U) The kyat's appreciation in October did not significantly affect rapidly rising consumer prices. The prices of many consumer goods and most transportation jumped after the GOB increased the official price of fuel in October (Ref. A). The total cost of the Embassy's basket of low income sector goods increased 5.9% in October from September. That is the highest month-to-month increase since August 2002.

7. (SBU) The inflation rate, based on the total Consumer Price Index of the Embassy's basket for the previous 12 months, was almost 14%. The Embassy's informal estimate of the inflation rate for all sectors, including clothing, fuel, education, health, transportation and rental charges, is between 40% and 50% for the same period. The GOB's official inflation rate (which is considered classified information in Burma), was just 6.3% for 12 months up to September.

COMMENT: BENEFITS FLOW TO THE CENTER

8. (SBU) Unfortunately for Burma's poor, the benefits of a stronger kyat, such as cheaper imports, are more than offset

by higher local food and transport costs. The influx of dollars from foreign gem merchants and tourists does not improve the economic situation of the average citizen, since the majority of gem resources and tourism facilities are GOB-owned. There will be some residual gains for small and medium private businesses that support the tourism industry, but the main beneficiary of the season's increased flows of foreign currency and tourists will continue to be the ruling regime.

Stoltz